State Tax Deduction
for Indiana Partnership Policyowners

Indiana residents who pay premiums for Indiana Partnership long term care insurance policies can receive a state tax deduction, beginning with tax year 2000. Governor O'Bannon signed the law authorizing this new deduction on May 13, 1999. The language of this law can be found at IC 6-3-1-3.5(a)(16) and states::

"For taxable years beginning after December 31, 1999, subtract an amount equal to the portion of any premiums paid during the taxable year by the taxpayer for a qualified long term care policy (as defined in IC 12-15-39.6-5) for the taxpayer or the taxpayer's spouse, or both."

"Qualified long term care policy" as defined in IC 12-15-39.6-5 is an Indiana Long Term Care Program policy.

To know if the policy is an Indiana Partnership policy, look for the following box of information on the outline of coverage, the application, or the front page of the policy:

> This policy qualifies under the Indiana Long Term Care Program for Medicaid Asset Protection. This policy may provide benefits in excess of the asset protection provided in the Indiana Long Term Care Program.

Example of the state tax deduction: Mrs. Smith owns an Indiana Partnership policy and pays $2,100 in premium during the year 2002. On her 2002 Indiana Tax Return (filed by April 2003), she can take all $2,100 as a deduction. If Mrs. Smith's income is $50,000, then her return would look something like:

	$50,000	-	Income
minus	2,100	-	Partnership policy premium paid during 2002
minus	1,000	-	Exemption for self
	$46,900	-	State Taxable Income
times	.034	-	State tax rate (3.4%)
	$ 1,595	-	State tax

If the amount of state tax she paid during 2002 and withheld on her W-2 is greater than the state tax, then she would qualify for a refund. (Result: Her Indiana Partnership policy premium deduction reduced her state tax by $71 for that tax year.)

Exception for the self-employed: If Mrs. Smith in the above example was self-employed and her Indiana Partnership was federally tax-qualified, and she took $940 on her federal return, she would only be able to deduct the difference on her state return.

$2,100	- premium paid in 2002.
- $ 940	- federal deduction taken
$1,160	- amount she can deduct on her Indiana tax return

Please read the Indiana State Tax Instruction Booklet for more information.